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& ECONOMIC DEVELOPMENT

LOCAL GOVERNMENT ISSUES IN FOCUS

Revenue Sharing in New York State

Summary of Findings

- Unrestricted aid to local governments – known as revenue sharing – is State aid that can be used for any local government purpose. The intended goal is to redistribute tax dollars broadly to municipalities which do not have the tax base or taxing authority to generate this revenue on their own.

- Revenue sharing currently totals nearly $800 million and is distributed through several aid programs. The vast majority of revenue sharing funds go to cities – with other municipalities receiving less than 10 percent of the total. Cities have historically been more dependent on unrestricted aid than other classes of local government, and as a result, have been more affected by changes to revenue sharing. In 2003-04, unrestricted aid made up more than 18 percent of total revenues in cities but only one percent of town and village revenues.

- For decades, the revenue sharing formulas established in permanent statute have been annually overridden in legislation. Revenue sharing peaked in 1988-89 at nearly $1.1 billion, and since that time funding for the program has not kept pace with inflation, growth in the State budget or the original revenues intended to support the program. Inflation has increased over 65 percent from 1988-89 to 2004-05, while unrestricted aid has *decreased* more than 26 percent during that period. If revenue sharing funds had grown at the rate of inflation over the last 17 years, unrestricted aid would be almost double its current level.

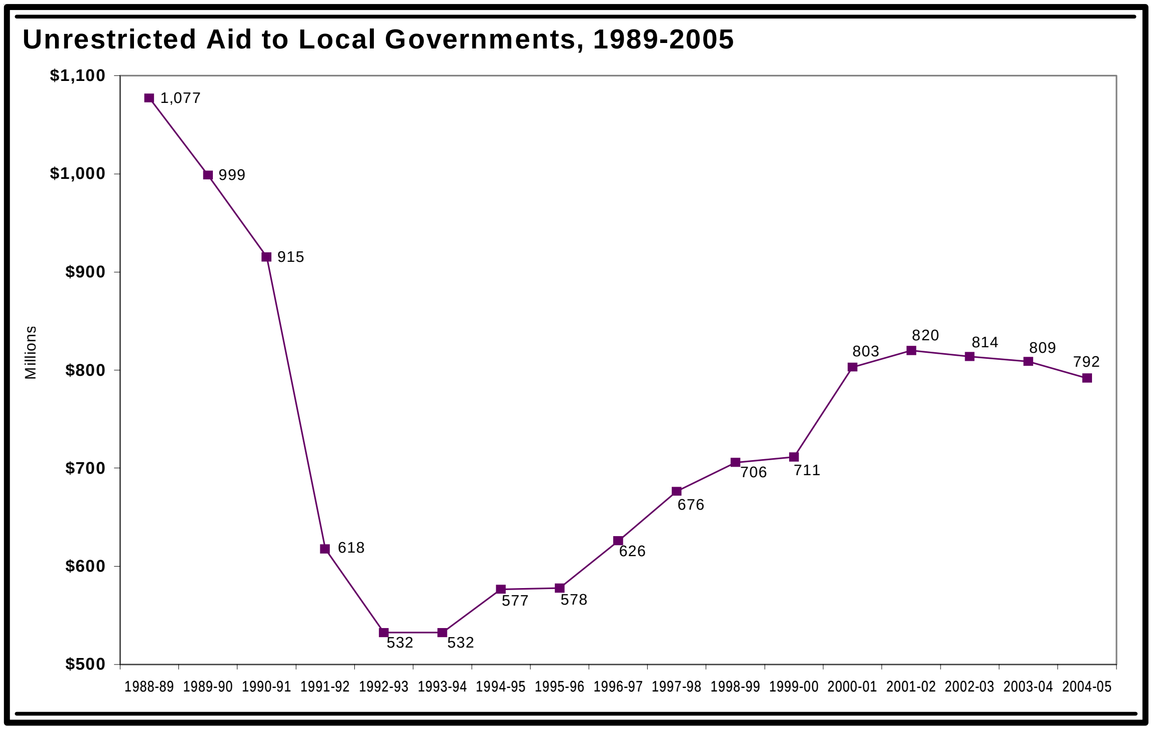
- In 1988-89, revenue sharing represented about three percent of the State budget; in 2004-05, only one percent of the State budget was devoted to revenue sharing.

- Cuts in revenue sharing in the early 1990s were linked to future savings in local government pension contributions – savings that never materialized because the proposed funding method was declared an unconstitutional "raid"on the pension system. However, the repayment costs for local governments were masked by the robust market performance throughout the 1990s which lowered overall pension contribution rates. Pension costs have now returned to more normal historical levels, but revenue sharing funding was never restored.

CONTENTS (VOL. 1 NO.2 FEBRUARY 2005) Pg. #

Unrestricted Aid Categories

Over the last 17 years, revenue sharing has been reduced by more than 26 percent. It is one of the few programs in the State budget that has suffered significant dollar reductions during this period. In aggregate, the program peaked in fiscal year 1988-89 at nearly $1.1 billion. During the early 1990s, New York responded to a serious fiscal crisis by cutting numerous programs, including unrestricted local government aid, which was reduced by roughly 50 percent over four years. By fiscal year 1992-93, revenue sharing had been decreased by more than $500 million to a low of $532 million. Since then, General Purpose Local Government Aid and other aid categories have essentially been frozen, with occasional modest, across-the board increases combined with new categories of aid.



The main categories of aid that have been used to distribute revenue sharing to localities since 1988-89 are highlighted below:

General Purpose Local Government Aid (GPLGA) is the largest unrestricted aid category available to municipalities in the State, accounting for between 74 and 92 percent of allocations over the last 17 years. GPLGA was originally established in 1970 to distribute aid to all classes of government based on per capita amounts prescribed in statute. However, statutory aid formulas have not been utilized for decades and counties have not received GPLGA since 1988-89. Cities, towns and villages currently receive GPLGA amounts which have been frozen at 2000-01 levels totaling $561.6 million.

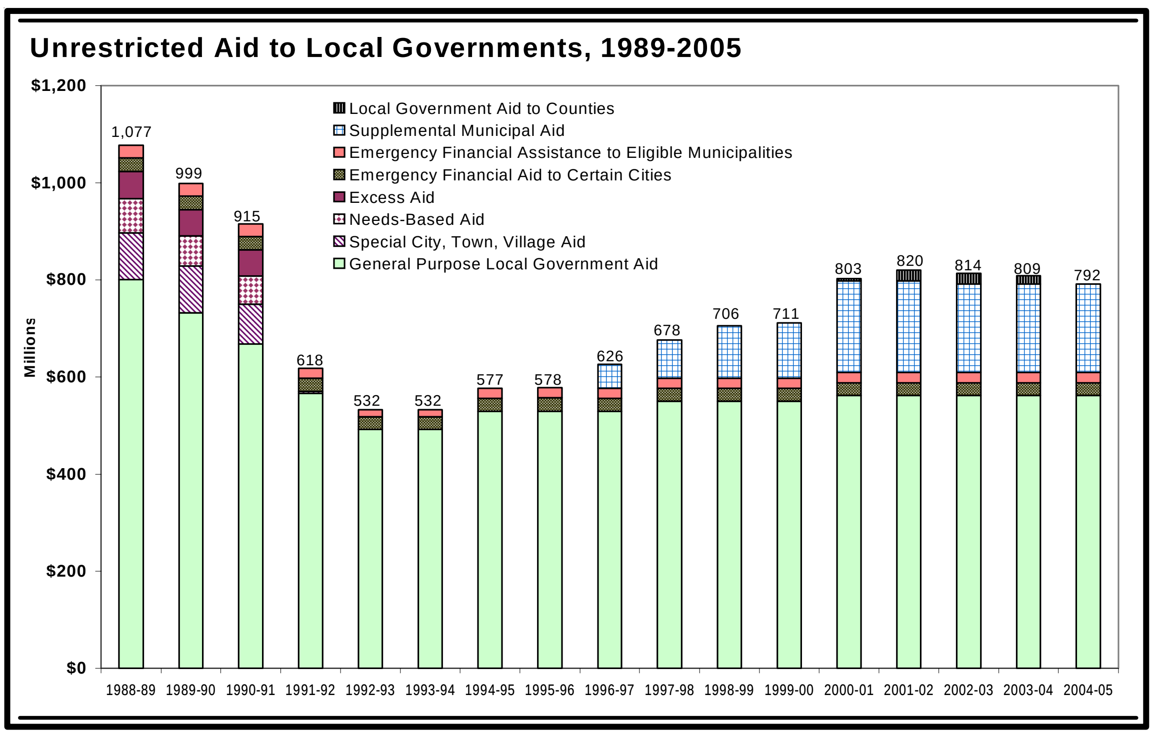
Emergency Financial Aid to Certain Cities was established in fiscal year 1977-78. It provides financial assistance to cities with populations of at least 100,000 but less than 1 million that finance a school system as well as general city government, and which are at (or near) their constitutional tax limits. Only Albany, Buffalo, Rochester, Syracuse, and Yonkers are eligible for this aid. Emergency Financial Aid to Certain Cities is currently frozen at fiscal year 1998-99 levels totaling $26.5 million.

Emergency Financial Assistance to Eligible Municipalities is distributed to six localities: the "Big Four" cities – Buffalo, Rochester, Syracuse and Yonkers – as well as Erie County and the City of Niagara Falls. This category of aid has been distributed since 1979 to assist localities demonstrating fiscal need and facing fiscal difficulties due to constitutional tax limitations. Emergency Financial Assistance to Eligible Municipalities remains frozen at 1994-95 levels totaling $20.8 million.

Supplemental Municipal Aid (SMA) was established in 1996 and expanded in 1997 and 1998 to encompass the following interim emergency aid programs: Additional Emergency Financial Assistance to Eligible Municipalities, Special Financial Assistance to Certain Municipalities and Additional Financial Assistance to Certain Municipalities. It is currently frozen at fiscal year 2002-03 levels totaling $182.9 million.

Special City, Town and Village Aid; Needs-Based Aid; and Excess Aid were distributed to certain municipalities during the 1980s and early 1990s. Funding for these aid programs was eliminated in 1992-93.

Local Government Aid to Counties was a small aid program for counties which was established in 2000-01 and expired in 2003-04. This program was unofficially linked to the Health Care Reform Act (HCRA), providing unrestricted aid to counties to partially offset the cost of the Family Health Plus insurance program, which is now scheduled for a phased-in State takeover to be fully implemented in 2005-06.



History

New York State has provided financial aid to its municipalities since 1789. Early programs included categorical grants for activities encouraged by the State and the Shared Tax System whereby localities received portions of taxes they had participated in collecting. The per capita aid program instituted in 1946 allocated specific dollar amounts per capita to cities, towns and villages. In 1965, a statutory formula was established to calculate aid based on fiscal need, effort and capacity indicators.

The revenue sharing program created in 1970 was designed to eliminate the complexity and uncertainty of previous State aid programs and to provide municipalities with flexible, equitable and predictable aid. New York State Finance Law Article 4-A, §54 outlines the framework of the Revenue Sharing Program, which is based on the previous Per Capita Aid Program. This program was designed to allocate specific amounts to counties, cities, towns and villages (with special emphasis on cities), based on population and full value data. The original legislation envisioned a distribution of aid equaling 21 percent of Personal Income Tax (PIT) revenues. That is, aid would grow annually keeping pace with growth in the State's major revenue source (hence the name – revenue sharing).

The revenue sharing program underwent numerous changes in the 1970s. Before the program was even implemented, allocations were cut in 1971 to 18 percent of PIT receipts. In 1977-78, the State capped distributions at the 1976-77 level. In 1978-79, revenue sharing aid was further restricted when statute was amended to change the basis of funding from 18 percent of PIT receipts to 8 percent of total State tax collections. In 1979-80, the State froze revenue sharing at the 1978-79 level, and until 1984-85, funding was capped at $800 million.

The program peaked in fiscal year 1988-89 at nearly $1.1 billion. During the early 1990s, New York had a serious fiscal crisis and cut numerous programs, including unrestricted local government aid, which was reduced by roughly 50 percent over four years. By 1992-93, revenue sharing had been decreased by more than $500 million to a low of $532 million.

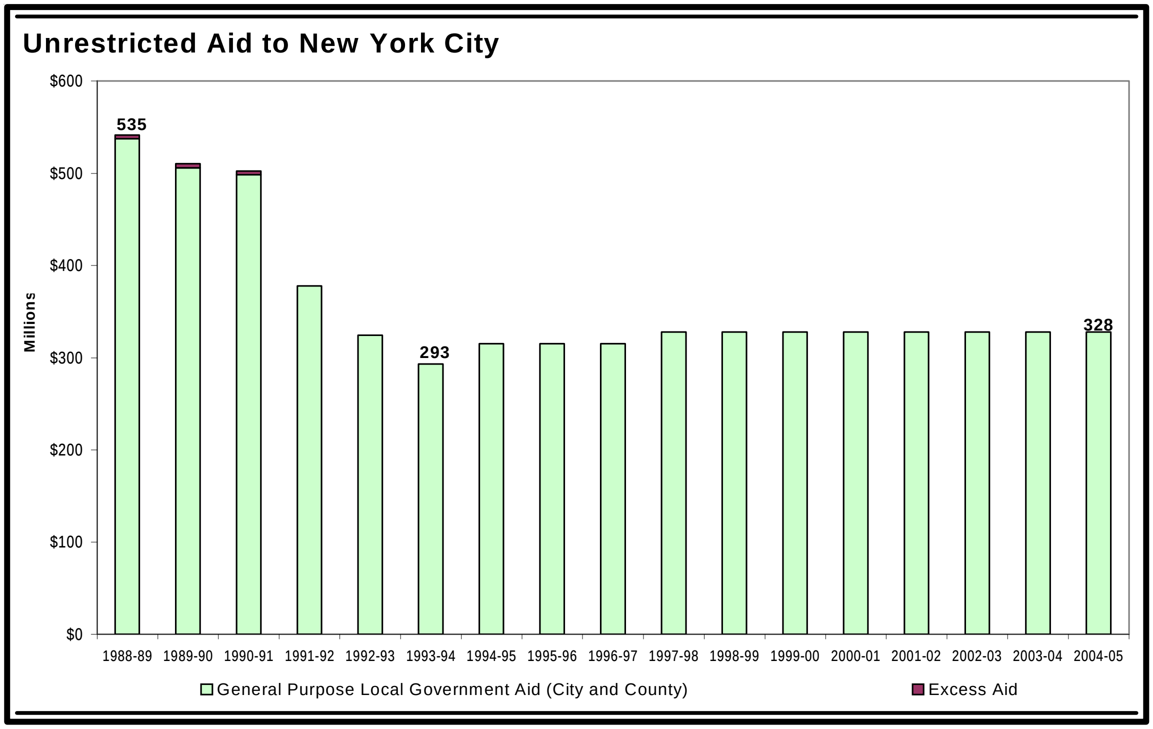
Reductions in revenue sharing funds in the early 1990s were linked to savings in local government pension contributions. While some reductions were accomplished with across-the-board percentage decreases in revenue sharing payments, portions of the reductions were statutorily keyed to savings from a change in the actuarial pension funding method to the Projected Unit Credit (PUC) method mandated by Chapter 210 of the Laws of 1990.

These reductions were achieved by withholding amounts from municipalities' revenue sharing payments equivalent to 35 percent of the savings associated with the PUC method compared to the previously used Aggregate Cost Funding method. The legislation, which would have permanently altered the pension funding method, was later declared unconstitutional in the courts. Nevertheless, local governments benefited from pension contribution rates which remained low throughout the 1990s due to the improved market performance of pension system investments. Since that time, revenue sharing has not been restored to previous funding levels while pension costs have returned to more normal historical levels.

The constraints placed on revenue sharing throughout this period demonstrated the State's difficulty in meeting the original intent of the program – to provide local governments with predictable amounts of State aid that would grow commensurately with the State's revenues. A 1998 statutory commission intended to recommend a new funding level and formula for revenue sharing was disbanded during State budget negotiations.

Impact of State Aid Reductions by Class of Local Government

New York City - Although all classes of local governments experienced reductions in State aid in the early 1990s, the largest dollar decreases were borne by New York City. From 1988-89 to 1993-94, aid to the City decreased by $242 million, or 45 percent. Since 1994-95, aid levels have remained essentially flat. The City currently receives $327.9 million, 39 percent less in 1988-89.

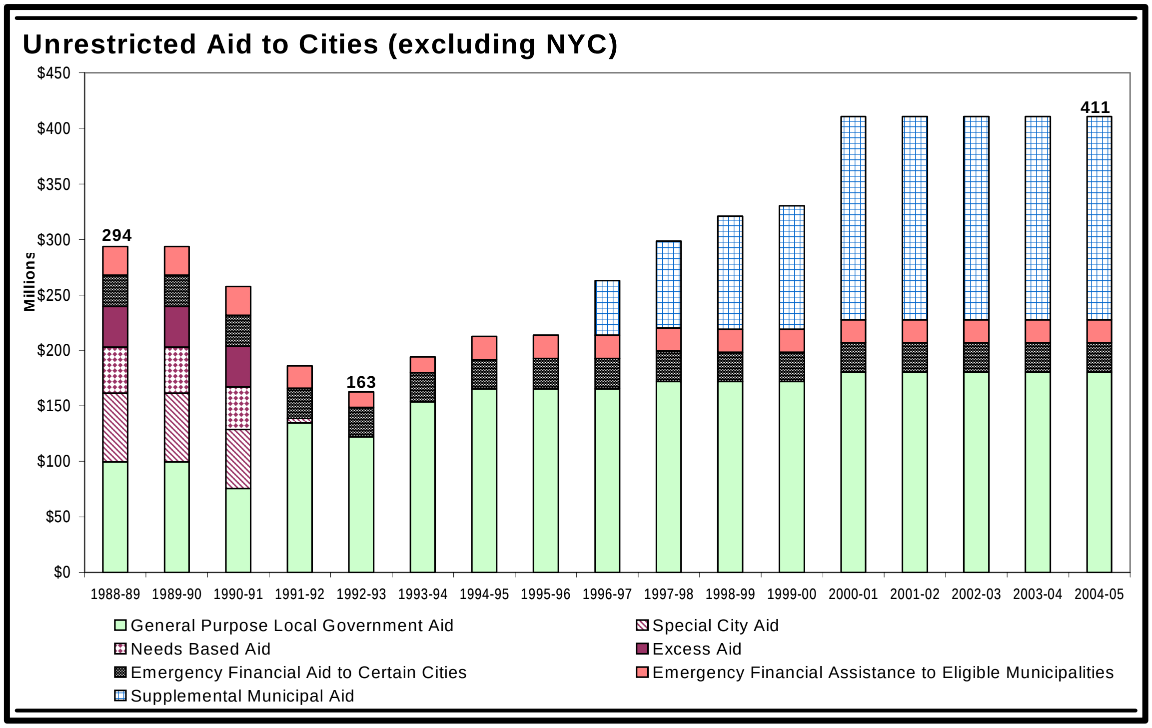


Revenue Sharing Intercepts

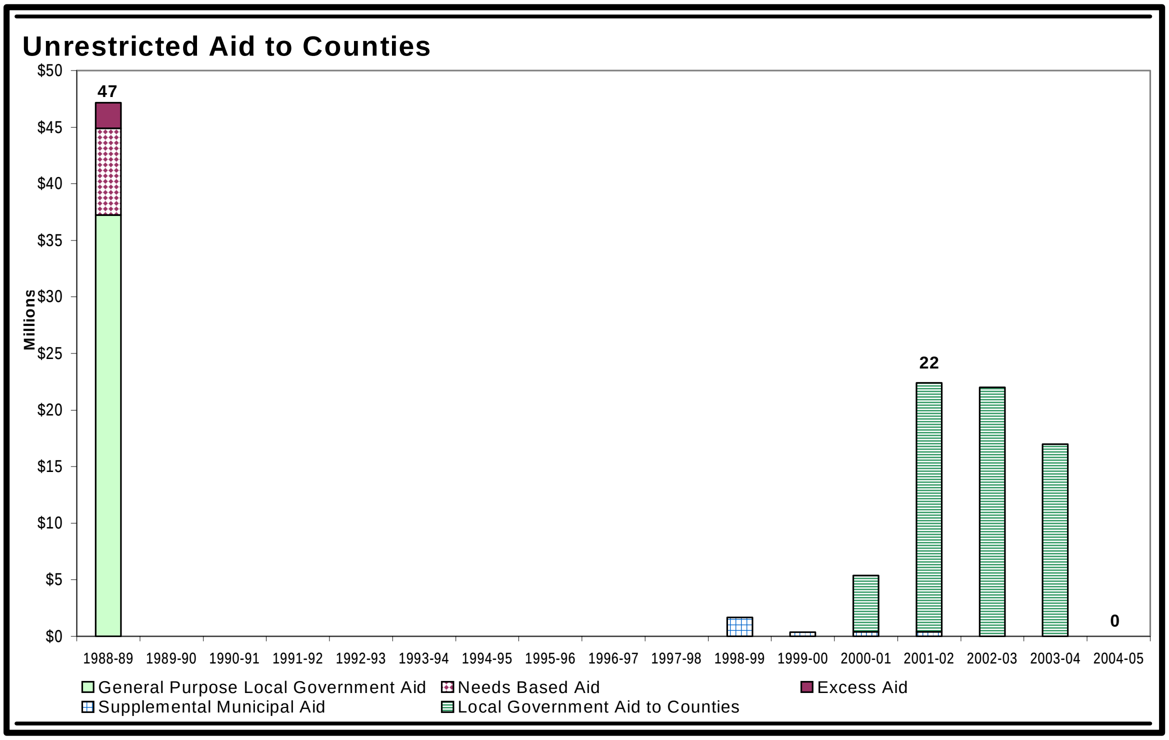
The State has used revenue sharing payments to support credit structures for distressed municipalities since the New York City fiscal crisis of the mid-1970s. When localities in severe fiscal stress have been downgraded by rating agencies to the point of losing access to the public credit markets, the State has constructed credit structures to restore market access. These structures usually involve authorization for a State public authority to issue debt on behalf of the municipality, with the State appropriating and/or intercepting local tax revenues and State aid to support the resulting debt service payments, thereby reassuring bondholders that the credit is secure. In essence, the State has assumed the role of banker for the municipality in return for imposing conditions that can help the municipality regain market access (progress toward recurring budget balance, a State-controlled oversight board, etc.). New York City, Troy, Nassau County and Buffalo all operate or have operated under these structures.

When revenue sharing payments are pledged to support debt service obligations, the resulting legal covenants can make it difficult or impossible to reduce such aid. Therefore, when the State was cutting revenue sharing payments in the early 1990s, it resorted to the use of so-called “surrogate cuts” in other non-pledged aid programs to reduce an equivalent amount of aid to New York City. Later, the State developed a legal technique whereby it appropriated and made available the gross revenue sharing amount, but refunded amounts to the State treasury after they were not needed to pay debt service. New York City receives the lower net amount. This structure – known as the Municipal Assistance Corporation (MAC) intercept – is still in place today.

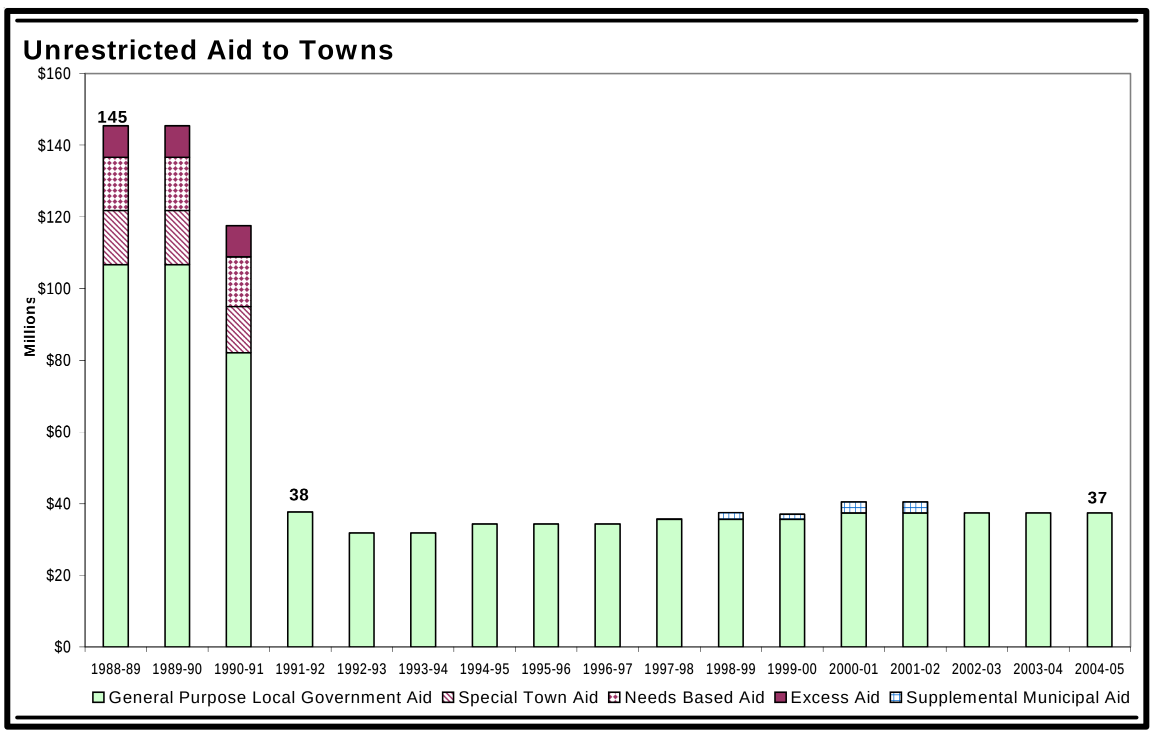
Cities - While most other classes of local governments had their GPLGA cut in the early 1990s, payments made to cities in 1991-92 actually increased. However, the $58 million increase in GPLGA which cities received in that year did not fully offset the $124 million which cities lost at that time from the elimination of Special City Aid, Needs Based Aid and Excess Aid. Until the introduction of the Supplemental Municipal Aid program in 1996-97, cities and all other classes of local governments either received the same amounts of aid or minimal, across-the-board increases. Supplemental Municipal Aid has significantly benefited cities since 1996-97. As a result, total unrestricted aid to this class currently totals $411 million, an increase of $117 million (40 percent) compared to aid received by cities in 1988-89. However, as discussed later in this brief, most of this increase has been targeted to large cities and is not provided under any statutory formula.



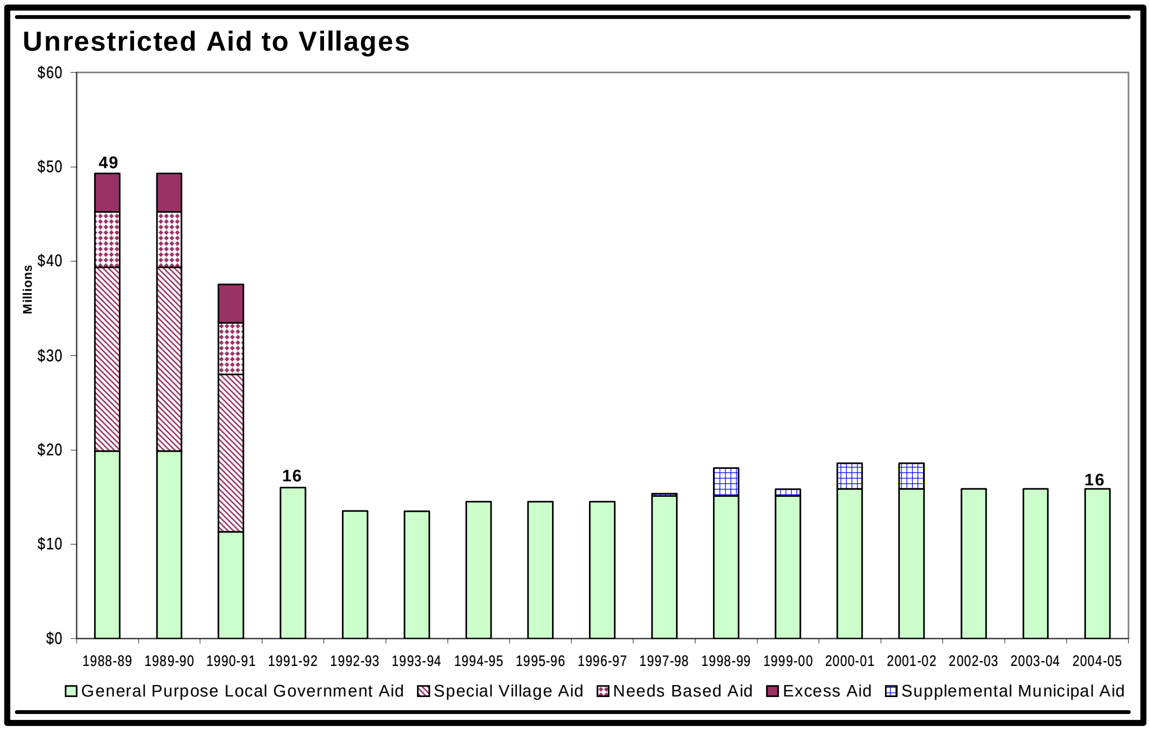
Counties - Of all the classes of local governments, counties have received the least support from the State in the form of unrestricted aid. Counties have received no General Purpose Local Government Aid since 1988-89 when they received a total of $47 million (which represented about 0.5 percent of total county revenues at that time), and received only minimal amounts of Supplemental Municipal Aid from 1998-99 to 2001-02. From 2000-01 through 2003-04, a new category of unrestricted aid for counties was appropriated. As mentioned previously, this Local Government Aid to Counties was intended to partially compensate counties for the cost of Family Health Plus until the State began to take over these costs in 2004-05. As a result, counties currently receive no unrestricted State aid.



Towns - Towns also suffered heavy cuts to their unrestricted aid payments in the early 1990s. State aid to towns in 1991-92 decreased 68 percent from the previous year and three aid programs (Special Town Aid, Excess Aid and Special Needs Aid) that provided over $35 million to towns were eliminated in 1991-92. Since then, aid payments to towns have been either frozen or marginally increased. SMA payments made to towns between 1997-98 and 2001-02 have been discontinued. Towns currently receive a total of $37 million in unrestricted aid, a decrease of $108 million (74 percent) from aid received in 1988-89.



Villages - Cuts to unrestricted aid for villages resulted in a one-year 57 percent decrease in 1991-92 and a 68 percent decrease from the 1988-89 peak. Supplemental Municipal Aid payments made to villages between 1997-98 and 2001-02 were discontinued. Villages currently receive $16 million in unrestricted aid, a reduction of $33 million (68 percent) compared to 1988-89.



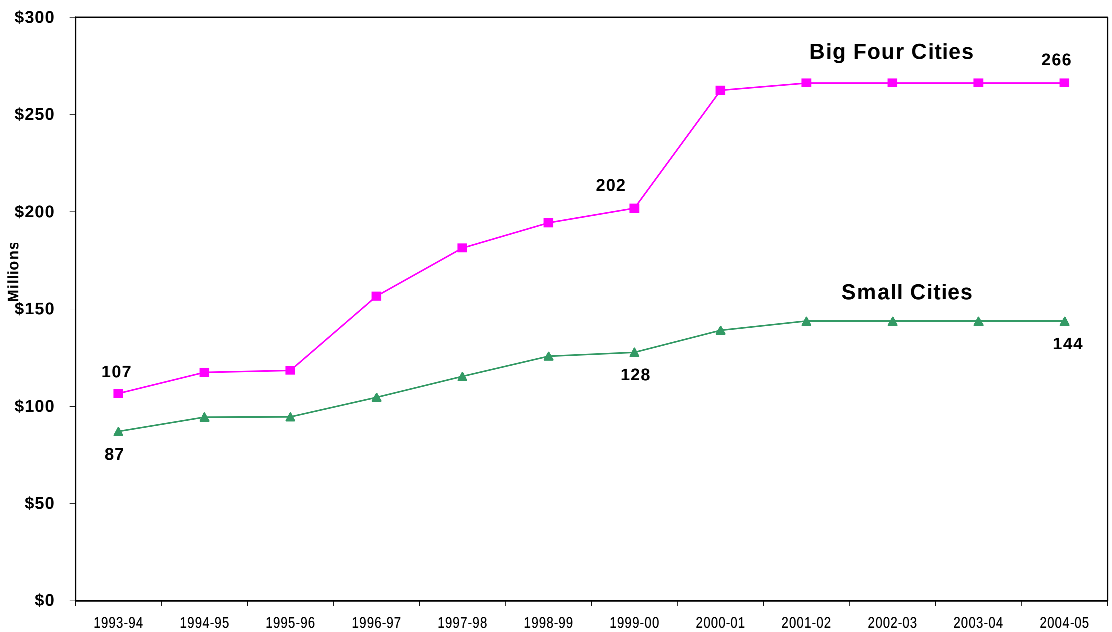
Differences in Aid Distribution to Cities

Over the last two decades, many cities in New York have struggled with declining tax bases caused by reductions in population and full value which has affected their ability to generate revenue. While General Purpose Local Government Aid to all classes of government has remained flat over the last decade, the State has channeled unrestricted aid through programs which have been targeted to specific municipalities with fiscal stress, most notably to cities. The most significant category of aid used for this targeted assistance has been Supplemental Municipal Aid (SMA). SMA has no formula based on wealth or population factors. As a result, distributions to cities tend to be uneven. Since its establishment in 1996, SMA has increased almost four-fold from $49 million to $183 million, with most of the increase benefiting the Big Four cities – Buffalo, Rochester, Syracuse and Yonkers. New York City does not receive any SMA. In 2000-01, SMA distributed to Big Four cities increased by 74 percent, while SMA distributed to small cities increased only 38 percent. Of the Big Four cities, SMA to Buffalo increased $20.5 million, Rochester increased $15 million, Syracuse increased $10 million and Yonkers increased $15 million. Unrestricted aid levels have remained essentially flat since 2000-01.

Cities have historically been more dependent on unrestricted aid than other classes of local government, and as a result, have been more affected by changes to the revenue sharing program. Before the large cuts of the early 1990s, unrestricted aid comprised 16 percent of total city revenues but only 6 and 5 percent of town and village revenues, respectively.

While unrestricted aid has remained at about one percent of total revenues for towns and villages over the last decade, cities have become increasingly more dependent on such aid. After a low of 8 percent in fiscal year 1992-93, unrestricted aid made up 18 percent of total revenues in cities in 2003-04, largely due to increases in SMA. Since 2000-01, SMA has been responsible for over 50 percent of unrestricted aid payments to cities, most of which has gone to the Big Four.

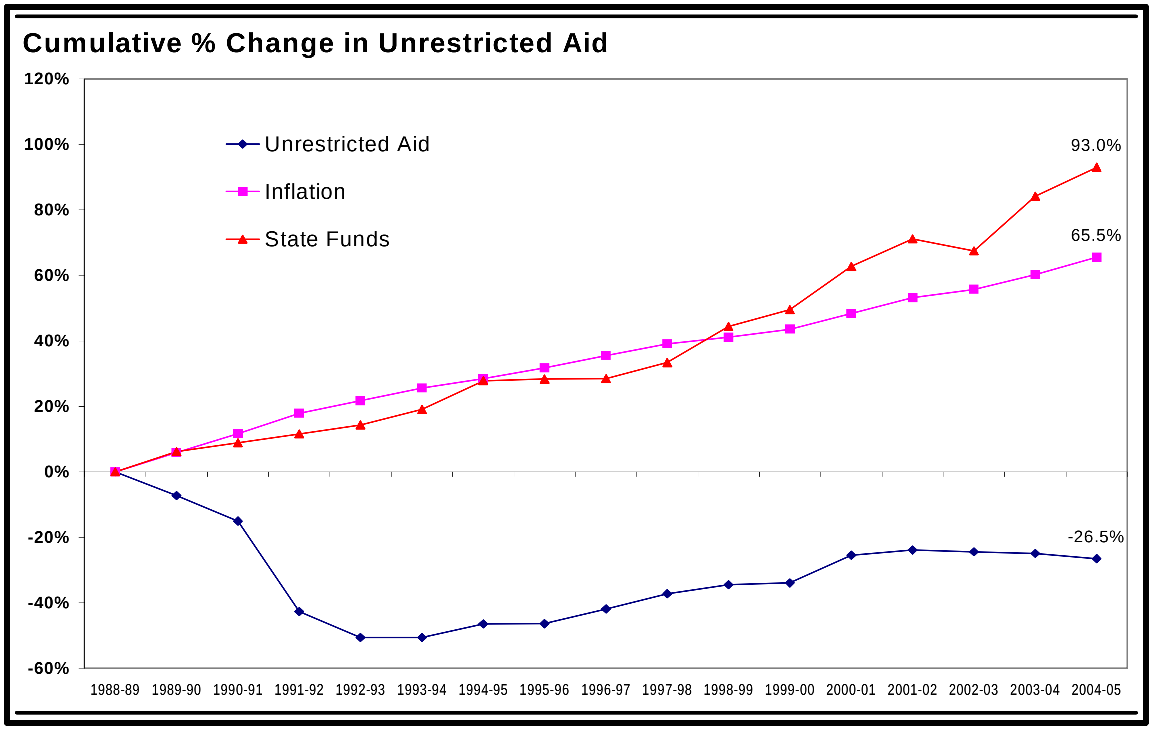
Unrestricted Aid to Big Four and Small Cities



Comparisons to Other Measures

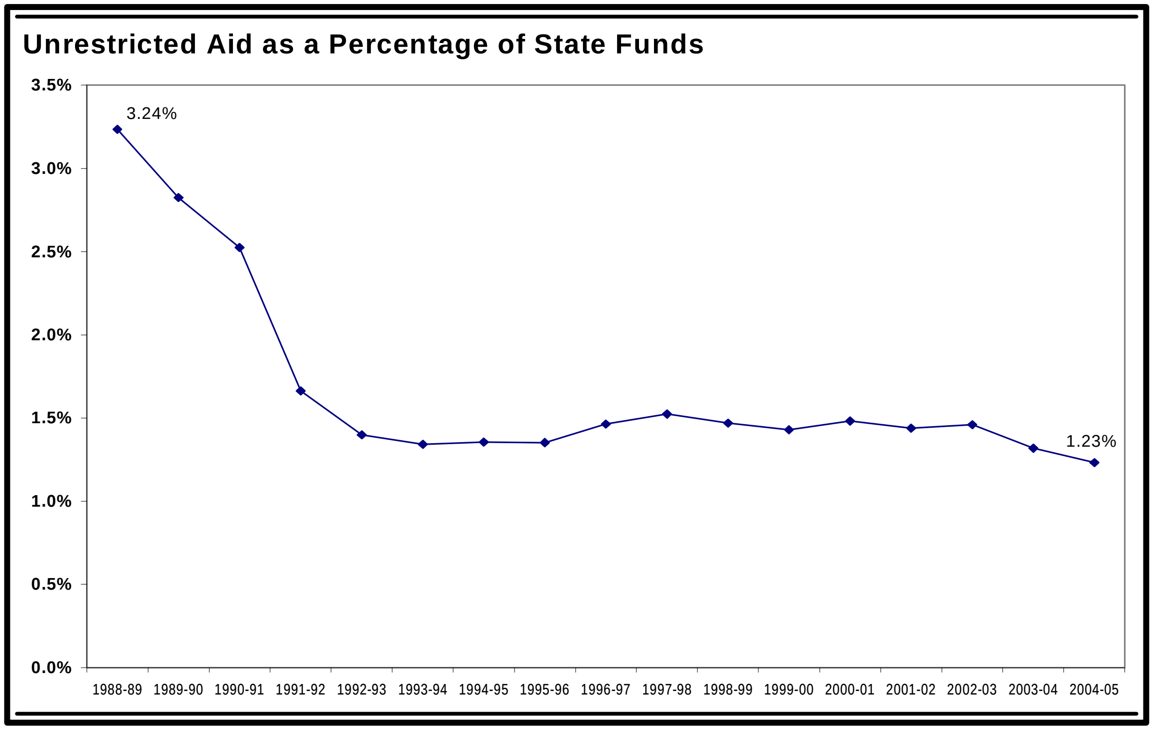
Over the last 17 years, funding for revenue sharing has not kept pace with growth in the original revenues intended to support unrestricted aid to localities, inflation or growth in the State budget. Cumulatively, State funds have increased by 93 percent and inflation has increased over 65 percent since 1989, while unrestricted aid has *decreased* more than 26 percent during that period.

The original statutory formula called for 21 percent of Personal Income Tax (PIT) receipts to be set aside for unrestricted aid to localities; this was later changed to 8 percent of total taxes. If the original formula linked to the PIT were used, municipalities would receive about six times the amount of revenue sharing they are currently receiving. If aid were linked to 8 percent of total taxes, municipalities would receive almost four times what they currently receive.



While these amounts are perhaps unrealistic given the State's fiscal difficulties during this period, if revenue sharing funds had grown at the rate of inflation over the last 17 years, unrestricted aid to localities would be almost double its current level. Similarly, if revenue sharing had grown commensurately with overall State budget increases during that time, unrestricted aid to localities would be more than double its current level.

Furthermore, revenue sharing has not been a sustained priority in the State budget throughout this period despite growing fiscal stress among localities. In 1988-89, revenue sharing represented about three percent of the State budget; in 2004-05, only one percent of the State budget was devoted to revenue sharing.


Unrestricted Aid as a Percentage of State Funds
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
3.24%
1.23%
1988-89
1989-90
1990-91
1991-92
1992-93
1993-94
1994-95
1995-96
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05

Formula Reform

The revenue sharing program was originally designed to be flexible, predictable and equitable. The program used formulas which relied on objective data including full valuation, population and personal income that could change over time. However, program funding has been essentially frozen in place since 1980, and local governments are drastically different today than they were when the original revenue sharing formulas were developed. Although existing statutory formulas have not been used for decades, those formulas still contain elements that can reflect current need.

New York State needs a comprehensive review of its revenue sharing program to determine how it can be reformed to assist municipalities in meeting local responsibilities. Aid amounts should be determined in a fair, objective manner which accounts for local fiscal capacity and need. Without a functioning formula, it is difficult to ensure an equitable distribution of unrestricted aid to localities in New York State.

In 1998, a commission was created in statute to analyze the revenue sharing program in New York State. The General Purpose Local Government Aid Study Commission consisted of representatives from the Office of the State Comptroller, the Division of the Budget, the Office of Real Property Services and members of the Assembly and Senate. Although the Comptroller advanced various proposals on revenue sharing reform, the Commission was disbanded by the Executive during budget negotiations, and never met its statutory reporting responsibilities regarding revenue sharing reform.

Spin-Ups

Certain cities have benefited from accelerated unrestricted aid payments to help their local budgets. These payments, referred to as "spin-ups," result from permanently moving payment dates forward—within the same State fiscal year, but into an earlier local fiscal year—thus allowing these localities to benefit from an extra (one-time) aid payment at no cost to the State. Such "spin-ups" of aid will give Buffalo, Syracuse, and Rochester an additional $25 million each over the next three years. Legislation authorizing these accelerations also requires these cities to develop multi-year financial plans. Other cities are not required to develop such plans.

2004-05 Accelerations

City	Amount
Auburn	$1,017,749
Buffalo	$15,600,000
Corning	$331,079
Lackawanna	$1,345,418
Long Beach	$700,751
Rensselaer	$230,221
Rochester	$15,600,000
Syracuse	$15,600,000
Watertown	$976,566
White Plains	$1,142,840

Revenue Sharing in Other States

Many other states have versions of revenue sharing programs in place. Similar to New York, many of these states have sometimes reduced revenue sharing programs to balance their budgets. Unlike New York, several of these states have proposed a more comprehensive approach to revenue sharing by either linking payments to a dedicated revenue source, or to municipal consolidation efforts. Wisconsin, Florida and Michigan have programs which distribute state monies to municipalities based on a set of criteria; aspects of these programs are summarized below.

Wisconsin:

Wisconsin's shared revenue formula for municipalities and counties is based on full value, population and public utilities payments. In 2002 and 2003, this formula was computed for counties, but payments to municipalities (Wisconsin separates counties from other municipalities) were capped at 101 percent of the amount municipalities received in the prior year. Since 2003, municipalities have received aid amounts reduced on a per capita basis by 8 percent from 2003 levels.

In 2001, Wisconsin proposed the Consolidation Incentive Payments program to encourage municipalities and counties to streamline their operations. Slated to start in 2003-04, the program allowed municipalities and counties to apply to the Department of Revenue with estimates of savings from consolidated services. In return for making government more efficient, participating municipalities would share a one-time payment equal to 75 percent of the identified savings, up to a statewide total of $45 million. To fund these one-time payments, future county and municipal aid payments would be reduced on a proportional basis.

Wisconsin also proposed a minimum guarantee, which would ensure that a local government received a shared revenue payment that was equal to at least 95 percent of the prior year's payment. However, before the Consolidation Incentive Payments or Minimum Guarantee Components were implemented, statutory provisions for the programs were repealed due to the state's fiscal crisis; therefore, the future of the program is uncertain.

Florida:

Another approach taken by Florida and other states is to dedicate portions of a specific tax – such as the cigarette tax – as aid to municipalities. Florida started to share a portion of cigarette tax revenues with municipalities in 1971 via the Municipal Financial Assistance Trust Fund. In 1972, at the start of the revenue sharing program, Florida localities received 82 percent of net cigarette tax collections. In 1999, they received 41 percent. Like New York State, revenue sharing distributions to localities have not kept pace with inflation and population growth.

Michigan:

Historically, Michigan distributed revenue sharing funds to localities from a portion of state income tax revenues in accordance with each locality's relative tax effort (RTE) – a comparison of property, income, and excise taxes to the statewide average of all localities. More recently, Michigan's revenue sharing program froze RTE aid levels at 1996-97 levels. Michigan's current revenue sharing program is funded from revenues raised through the state sales tax; formula changes are gradually shifting aid payments from urban areas to suburban and rural areas, with the changes to be fully implemented by 2010. To accomplish the shift, Michigan replaced old formulas for revenue sharing with three new formulas based on the following:

- Unit Type Population Weighting provides aid to reflect service delivery costs, which vary by type of unit and population size within government class;
- Taxable Value Per Capita Weighting provides state support to government classes with smaller per capita tax bases. By providing higher payments to classes of government with lower taxable value per capita, the formula adjusts for revenue raising capacity; and
- Yield Equalization creates a minimum guarantee, much like the one proposed in Wisconsin's program.

Overview of 2005-06 Executive Budget Proposals

The 2005-06 Executive Budget proposes a number of changes to unrestricted aid to localities, including a new Aid and Incentive (AIM) program for municipalities. Under AIM, the Governor would consolidate General Purpose Local Government Aid, Emergency Financial Aid to Certain Cities, Emergency Financial Assistance to Eligible Municipalities, Supplemental Municipal Aid and a portion of Small Government Assistance into one program. The Executive Budget provides $48 million for AIM increases to cities in 2005-06 which would grow to $96 million in 2006-07.

New York City would not be eligible for AIM aid increases and would therefore receive the same amount of unrestricted aid it received in 2004-05 ($328 million). All other cities would receive minimum 2.5 percent aid increases in 2005-06 and 5 percent increases in 2006-07. Depending on each city's per capita full valuation compared to statewide average per capita full valuation, 55 of the 61 cities would be eligible for larger increases in State aid (up to 12.5 percent in 2005-06 and 25 percent in 2006-07). The table below summarizes the range of aid increases for which cities of varying size and wealth would be eligible.

	Percentage of aid increase		# Eligible cities	Total 1998 expenditures	Total 2003 expenditures	Annual average increase in expenditures	Change in Population 1990-2000
	2005-06	2006-07					
Big Four Cities	**12.5%**	**25%**	**4**	**$1,038,020,065**	**$1,224,760,958**	**3.36%**	**-6.00%**
Cities less than 75% of Per Capita Full Value	**12.5%**	**25%**	**33**	**$780,685,822**	**$998,688,372**	**5.05%**	**-8.63%**
Cities between 75% and 100% of Per Capita Full Value	**10%**	**20%**	**12**	**$335,898,505**	**$406,852,374**	**3.91%**	**-2.34%**
Cities between 100% and 125% of Per Capita Full Value	**5%**	**10%**	**6**	**$133,421,999**	**$164,731,832**	**4.31%**	**2.51%**
Cities over 125% of Per Capita Full Value	**2.5%**	**5%**	**6**	**$291,643,518**	**$380,012,832**	**5.44%**	**6.98%**

All cities that are eligible to receive increases in aid above the minimum must enter into fiscal performance agreements with the Department of State. The fiscal performance agreement must demonstrate how spending will be controlled and must include information on projected annual expenditures; reserve fund balances; and estimated annual revenues, including projected property tax rates, the value of taxable real property and resulting tax levy. Municipalities must also agree to cap spending growth at 3.5 percent in 2006-07, 3.25 percent in 2007-08 and 3 percent in 2008-09.

If a city is not able to hold spending growth to these levels, it will not receive additional State aid without the completion of a fiscal reform plan with the Department of State. A fiscal reform plan is intended to bring the city into compliance with its fiscal performance agreement through the identification of various cost-saving measures, such as inter-municipal shared services, improved procurement practices, technological initiatives or public-private partnerships. A reform plan must include a schedule for the implementation of strategies and must be updated annually.

Towns and villages with full value per capita less than 125 percent of statewide average full value per capita are also eligible to receive increased aid payments. Under the Governor's proposal, 85 percent of New York State's 1,485 towns and villages would receive aid increases of 2.5 percent in 2005-06 and 5 percent in 2006-07, for a cost of $1.1 million and $2.2 million, respectively. There are no spending limits or fiscal performance agreements required for towns and villages.

Counties, which last received revenue sharing funds in 2003-04, would receive no aid under the AIM proposal.

The Governor is also proposing a Shared Municipal Services Incentives Awards program to encourage efficiency in local governments. Funding of $5.5 million is proposed for the program in 2005-06, which would increase to $10.75 million in 2006-07. The Department of State would award $100,000 grants to participating municipalities - counties, cities, towns, villages and school districts - to cover costs associated with mergers, consolidations, cooperative agreements and shared services including, but not limited to, feasibility studies, capital improvements and other necessary expenses. Local governments must provide matching funds equal to 10 percent of total approved project costs. The Secretary of State would establish eligibility requirements, criteria and grant approval guidelines.

In fact, the Comptroller's Report on Intermunicipal Cooperation and Consolidation (issued in 2003) recognized that determining the feasibility of cooperative ventures is an important first step for local governments to take. The Comptroller also acknowledged that in fiscally stringent times the cost of such feasibility studies may be difficult for localities to bear and recommended that the State should provide aid for this purpose.

While the Executive's proposal recognizes the growing needs of local governments, it reflects a modest change in priorities within the overall State budget. For example, the Governor's plan represents a $55 million increase in total revenue sharing funds - roughly one percent of the proposed total State Funds increase. Even with the proposed increases, the revenue sharing program would remain more than 21 percent below the peak of 17 years ago.

In addition, although proposed increases would be tied to current property wealth, the vast majority of funds would continue to be distributed in accordance with decades old assumptions of population and property wealth. Such an approach would not ensure an equitable distribution of State funds which would provide aid to municipalities based on measures of need (e.g., population, fiscal capacity and socioeconomic factors) as was advanced by the State Comptroller to the General Purpose Local Government Aid Study Commission in 1998.

Conclusion

The revenue sharing program in New York State was established to provide local governments with a predictable source of revenue that would grow with the State's economy. To make the disbursement of State funds more equitable, the State Per Capita Aid program was designed to include objective measures of fiscal need, effort and capacity. However, an objective formula has not been used to distribute revenue sharing funds since the mid-1970s. As the program stands now, unrestricted aid distributed to local governments is not at all predictable. At best, municipalities can expect that their unrestricted aid will be increased minimally or frozen. At worst, unrestricted aid programs can be drastically cut or eliminated in response to State fiscal stress.

Local governments continue to face growing fiscal stress and local tax rates are under increasing upward pressure as municipalities attempt to meet their responsibilities. Communities facing the most difficult economic conditions must be assured that the State will provide aid amounts which account for local fiscal capacity and need. In addition, targeted programs should be considered to encourage localities to operate more effectively and efficiently, perhaps through an incentive aid program which rewards consolidation and cooperation efforts.

New York State must ensure that the revenue sharing program receives a higher priority in State budget negotiations than it has received over the last several decades. Given the State's current fiscal condition, significant increases in revenue sharing for local governments will have to compete with increases to other budget categories within the context of overall spending restraint. Nonetheless, the State needs to take a broad, sustained multi-year approach to reforming the revenue sharing program in order to better assist the growing numbers of fiscally distressed municipalities.

Appendix I: Unrestricted Aid to Localities

Municipalities within County	Total Aid 1988-89	Total Aid 2004-05	$ Change	Annual Average % Change	Cumulative % Change 1988-89 to 2004-05
Essex	$972,000	$177,238	($794,762)	-9.53%	-81.77%
Greene	$917,000	$193,573	($723,427)	-8.74%	-78.89%
Putnam	$1,486,000	$313,996	($1,172,004)	-8.74%	-78.87%
Sullivan	$1,480,000	$317,876	($1,162,124)	-8.65%	-78.52%
Suffolk	$30,363,000	$6,638,142	($23,724,858)	-8.56%	-78.14%
Hamilton	$115,000	$25,592	($89,408)	-8.46%	-77.75%
Lewis	$688,000	$164,174	($523,826)	-8.08%	-76.14%
Wayne	$2,208,000	$529,231	($1,678,769)	-8.06%	-76.03%
Yates	$534,000	$132,769	($401,231)	-7.86%	-75.14%
Livingston	$1,552,000	$391,760	($1,160,240)	-7.78%	-74.76%
Schuyler	$465,000	$117,940	($347,060)	-7.75%	-74.64%
Wyoming	$1,044,000	$267,154	($776,846)	-7.70%	-74.41%
Rockland	$7,360,000	$1,913,116	($5,446,884)	-7.62%	-74.01%
Schoharie	$728,000	$198,102	($529,898)	-7.37%	-72.79%
Delaware	$1,267,000	$345,281	($921,719)	-7.36%	-72.75%
Franklin	$1,434,000	$391,358	($1,042,642)	-7.35%	-72.71%
Orleans	$1,075,000	$303,198	($771,802)	-7.17%	-71.80%
Washington	$1,592,000	$464,149	($1,127,851)	-6.99%	-70.84%
Tioga	$1,337,000	$392,831	($944,169)	-6.95%	-70.62%
Seneca	$1,022,000	$327,354	($694,646)	-6.48%	-67.97%
Allegany	$1,747,000	$566,621	($1,180,379)	-6.41%	-67.57%
Nassau	$43,036,000	$14,637,310	($28,398,690)	-6.15%	-65.99%
Herkimer	$2,934,000	$1,212,299	($1,721,701)	-5.07%	-58.68%
Saratoga	$5,386,000	$2,315,324	($3,070,676)	-4.84%	-57.01%
St. Lawrence	$4,653,000	$2,097,452	($2,555,548)	-4.58%	-54.92%
Warren	$2,397,000	$1,144,225	($1,252,775)	-4.26%	-52.26%
Tompkins	$3,974,000	$1,903,499	($2,070,501)	-4.24%	-52.10%
Ulster	$5,588,000	$2,692,794	($2,895,206)	-4.20%	-51.81%
Chenango	$1,842,000	$991,104	($850,896)	-3.58%	-46.19%
Genessee	$2,598,000	$1,413,167	($1,184,833)	-3.52%	-45.61%
Chatauqua	$8,014,000	$4,620,644	($3,393,356)	-3.19%	-42.34%
Cortland	$2,581,000	$1,493,037	($1,087,963)	-3.17%	-42.15%
Steuben	$4,485,000	$2,658,560	($1,826,440)	-3.03%	-40.72%
NYC	$535,023,000	$327,889,668	($207,133,332)	-2.84%	-38.71%
Albany	$19,256,000	$11,911,834	($7,344,166)	-2.79%	-38.14%
Madison	$2,683,000	$1,660,151	($1,022,849)	-2.78%	-38.12%
Cattaraugus	$4,081,000	$2,525,482	($1,555,518)	-2.78%	-38.12%
Dutchess	$8,486,000	$5,324,166	($3,161,834)	-2.70%	-37.26%
Columbia	$1,885,000	$1,190,123	($694,877)	-2.67%	-36.86%
Broome	$11,159,000	$7,050,071	($4,108,929)	-2.67%	-36.82%
Clinton	$3,639,000	$2,300,683	($1,338,317)	-2.66%	-36.78%
Montgomery	$3,340,000	$2,123,765	($1,216,235)	-2.63%	-36.41%
Ontario	$3,919,000	$2,509,676	($1,409,324)	-2.59%	-35.96%
Oswego	$5,044,000	$3,263,187	($1,780,813)	-2.53%	-35.31%
Otsego	$2,609,000	$1,734,868	($874,132)	-2.37%	-33.50%
Chemung	$5,152,000	$3,433,483	($1,718,517)	-2.36%	-33.36%
Schenectady	$9,152,000	$6,141,258	($3,010,742)	-2.32%	-32.90%
Orange	$10,064,000	$6,893,392	($3,170,608)	-2.20%	-31.50%
Jefferson	$4,728,000	$3,567,174	($1,160,826)	-1.64%	-24.55%
Fulton	$3,280,000	$2,576,548	($703,452)	-1.41%	-21.45%
Cayuga	$4,451,000	$3,561,411	($889,589)	-1.30%	-19.99%
Niagara	$18,917,000	$16,125,245	($2,791,755)	-0.93%	-14.76%
Rensselaer	$9,498,000	$9,396,144	($101,856)	-0.06%	-1.07%
Oneida	$17,265,000	$17,512,669	$247,669	0.08%	1.43%
Monroe	$48,196,682	$50,414,011	$2,217,329	0.26%	4.60%
Erie	$97,826,318	$113,328,867	$15,502,549	0.87%	15.85%
Onondaga	$34,065,500	$45,336,270	$11,270,770	1.70%	33.09%
Westchester	$66,889,500	$92,620,564	$25,731,064	1.93%	38.47%
Total	$1,077,483,000	$791,741,580	($285,741,420)	-1.80%	-26.52%
State Funds				3.94%	93.01%
Inflation				3.01%	65.50%
PIT Revenues				4.14%	99.41%

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